



Investment Office

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

September 16, 2005

AGENDA ITEM 5.a.

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

I. SUBJECT: Revision of the Extended Market Public Real Estate Equity Securities Policy (Extended Market PREES)

II. PROGRAM: Real Estate – Non Core

III. RECOMMENDATION: Approve the reading and recommend to the Investment Committee approval of the Statement of Investment Policy for Global Public Real Estate Equity Securities (Global PREES).

IV. ANALYSIS:

Recommendation

Staff has reviewed the above policy statement and recommends a number of modifications. The changes are as follows:

- Staff is seeking authority to invest in global real estate equity securities. Hence, the name was changed from “Extended Market Public Real Estate Equity Securities” (Extended Market PREES) to “Global Public Real Estate Equity Securities” (Global PREES) to reflect the Portfolio’s future global identity and to distinguish the portfolio from the Enhanced Core Index PREES. The strategic objective of the Portfolio will incorporate exposure to the growing and liquid global public real estate equity securities markets. Real estate staff believes that a global equity real estate securities portfolio could enhance risk adjusted returns to the system.
- Consistent with the above recommended expansion of the investment universe for Global PREES Staff recommends expanding the combined allocation range for Enhanced Core PREES and Global PREES from the current 0-15% to a proposed 0-25% of the total Equity Real Estate Portfolio. Please see related agenda item 5.b. for Staff’s recommendation of proposed revisions to the Statement of Investment Policy for Equity Real Estate.
- International (non U.S.) public equity real estate security investments will be externally managed for the implementation of the strategy. The management

costs will be evaluated in conjunction with the RFP selection process for qualified external managers.

- Change the benchmark from the Wilshire Real Estate Securities Index ("WRESI") to an encompassing custom global equity real estate securities index to be determined by Staff and the Board's Consultant.
- The Portfolio will be classified as a component of the Non-Core equity real estate portfolio.

The domestic (U.S.) portion of the Global PREES portfolio will continue to be managed on the same platform as CalPERS' other internally managed equity strategies and the discretion to buy or sell shall continue at the prudent direction of the SIO-RE.

In conclusion, Staff recommends the Investment Committee's approval of the revised Statement of Investment Policy for Global Public Real Estate Equity Securities (Global PREES) based on Staff's above evaluation.

Please see attachment 1 for Staff's evaluation and recommendation memorandum on international public real estate securities investment.

See attachment 2 for letter of concurrence from the Board's General Consultant, Wilshire.

See attachment 3 for letter of concurrence from the Board's Real Estate Consultant, Pension Consulting Alliance (PCA).

See attachment 4 for the blackline revisions to the Statement of Investment Policy for Global Public Real Estate Equity Securities (Global PREES).

Staff, Wilshire and PCA will be available to respond to any questions of the Committee.

V. STRATEGIC PLAN:

This item supports Goal IV to assure that sufficient funds are available, first to pay benefits and, second to minimize and stabilize employer contributions.

VI. RESULTS/COSTS:

This change will clarify existing policy making it more reflective of portfolio preferences and market practices while providing flexibility in a few areas and enhancing portfolio activity within affected real estate portfolios.

Borge Tangeraas
Investment Officer

Jose McNeill
Portfolio Manager

Al Fernandez
Senior Portfolio Manager

Michael McCook
Senior Investment Officer

Anne Stausboll
Assistant Executive Officer

Mark Anson
Chief Investment Officer